PREFILED WRITTEN TESTIMONY
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HAY GROUP, INC.

Hay Group, Inc. is a privately-held global consulting firm of over 2,000 consultants, including academicians, accountants, actuaries, attorneys, economists, executives, human resource specialists, psychologists and researchers, helping organizations design and implement strategies to organize, manage, motivate and reward people. Hay Group, Inc. has 72 offices in 35 countries around the world and works with all types of organizations, including large and complex companies, as well as substantially smaller local businesses across industry sectors, such as healthcare, retail, manufacturing and financial services.

Hay Group, Inc. works with boards of directors, compensation committees and senior executives to set compensation packages that motivate and reward those who run businesses in terms that are clearly justifiable to shareholders or stakeholders. The Executive Compensation Practice is dedicated to three critical needs of executive compensation: (1) supporting business strategies with effective compensation and benefits programs; (2) providing market data, practices and trends and interpreting the implications of market practice given a client's particular situation; and (3) providing complete knowledge of accounting, tax, securities and other regulatory areas. The executive compensation consultants work extensively with management, boards of directors and compensation committees on issues such as: (1) sharing competitive data and practices, along with trends and best practices; (2) discussing and supporting compensation decisions for individuals, the executive group or employees generally; (3) presenting and discussing new compensation and benefits programs in which executives participate and the programs' support of the business strategy; and (4) synthesizing technical implications of executive compensation.

In November, 1999, the Board of Directors of CareFirst, Inc. engaged Hay Group, Inc. to assist management and the Executive Compensation Committee of the Board of Directors in reviewing and evaluating the company's compensation arrangements and benefit programs. Based on a thorough review of the CareFirst compensation arrangements and comparable compensation arrangements for similar corporations, Hay Group has concluded that the compensation arrangements in place at CareFirst relating to the acquisition of the company are justifiable, appropriate and commercially reasonable. Ultimately, these compensation arrangements inure to the public benefit because they serve to maximize the value of CareFirst's public or charitable assets for the direct benefit of the owners of these assets – the State of Maryland, the State of Delaware and the District of Columbia – by helping to retain critical executives and providing incentives to top management to secure the full market value in a transaction.

1. <u>Incentive and Retention Plans Relating to the Acquisition of CareFirst</u>

As part of its engagement, Hay Group was asked by the Executive Compensation Committee of the CareFirst Board of Directors to analyze recent retention bonuses provided by other health services and health insurance organizations going through a merger and to make recommendations to the Committee regarding the appropriate level of merger incentive and retention bonuses for CareFirst officers and senior managers. On April 20, 2001, Hay Group presented its findings and recommendations to the Executive Compensation Committee, which approved the recommendations. On April 26, 2001 and, again on July 26, 2001, the findings and recommendations of the Hay Group were reported to the CareFirst Board of Directors.[1]

Acting upon these recommendations, on July 26, 2001, the CareFirst Board of Directors approved a merger incentive plan for the chief executive officer and the executive vice presidents and a retention bonus plan for senior vice presidents, vice presidents and senior managers. No individual participates in both plans, and the CareFirst Board of Directors does not participate in either plan.[2]

Merger Incentive Plan[3]

The Merger Incentive Plan provides that, following the sale or disposition of the company, a merger incentive, calculated as a percentage of the merger consideration, will be paid to the following participants:[4]

William L. Jews	President and Chief Executive Officer
David D. Wolf	Executive Vice President, Managed Care and Strategic Planning
Leon Kaplan	Executive Vice President, Operations
Gregory A. Devou	Executive Vice President and Chief Marketing Officer
G. Mark Chaney	Executive Vice President, Chief Financial Officer and Treasurer
John A. Picciotto	Executive Vice President, General Counsel & Corporate Secretary
Sharon J. Vecchioni	Executive Vice President, Chief of Staff

The purpose of the Merger Incentive Plan is to align the interests of CareFirst's executive management team with the interests of the stakeholders to ensure that the executive management

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1 Hay Group, Inc. memorialized its confidential report on merger bonuses in a letter to the Executive Compensation Committee, dated July 30, 2001, which is attached as Exhibit 1 to this testimony.

2 The Board of Directors amended the plans on November 20, 2001, in conjunction with the approval of the WellPoint transaction. The plan documents were executed on December 2, 2001.

3 A copy of the Merger Incentive Plan, together with the letters of participation for each participant in the Merger Incentive Plan, is attached as Exhibit 2 to this testimony.

4 The participants in the Merger Incentive Plan are considered the CareFirst "executive management team." The executive management team has management responsibility for four companies: CareFirst, Inc., CareFirst of Maryland, Inc., Group Hospitalization and Medical Services, Inc., and Blue Cross Blue Shield of Delaware, Inc.

team will aggressively pursue a transaction that may be in the best interests of the stakeholders. In any sale transaction, the board of directors and the stakeholders must depend on the executive management team to negotiate and present the best possible transaction. However, such a transaction may not be in management's best interests since, oftentimes in these transactions, members of the executive management team will lose their jobs or have reduced titles and positions after the transaction. As a result, management may, in effect, be negotiating a transaction that will not be in their best interests, from a personal standpoint. Thus, any such transaction puts management at risk. Moreover, there is always the possibility that a potential buyer will attempt to negotiate the terms of future employment with members of the executive management team before the sale terms are finalized. The possibility of such negotiation may create a potential for a conflict of interest.

While "change-of-control" severance arrangements such as those in place at CareFirst provide some benefits to members of the executive management team, those benefits are paid only if the executive's employment is terminated. Those arrangements do not align the interests of the executive management team with the interests of stakeholders to ensure that the executive management team will aggressively pursue the best transaction for the stakeholders. The Merger Incentive Plan assures that the executive management team has no disincentive to investigate and to consummate the best transaction for the stakeholders from a financial standpoint. The Merger Incentive Plan also gives the executive management team an additional incentive during a lengthy review period to conduct company operations in a manner to keep the organization successful and attractive both to its proposed acquirer (which might otherwise seek to abandon the transaction) and to potential alternative partners. Such incentives are commonplace, commercially reasonable and appropriate in today's market and reflect the level of skill, effort, dedication and time required to consummate a successful merger. Those incentives are especially important in connection with the CareFirst acquisition because the complex nature of the CareFirst acquisition, involving as it does multiple regulatory jurisdictions and approvals, creates a very lengthy period of uncertainty.

Based on our experience as management consultants, we are convinced that the best way to maximize the merger consideration in a transaction of this sort, which in this case inures directly to the State of Maryland, the State of Delaware and the District of Columbia as the ultimate stakeholders, is to provide a financial incentive to the executive management team. Tying this financial incentive directly to the amount of merger consideration is the best encouragement available to the executive management team to maximize the merger consideration for the benefit of the stakeholders.

Hay Group was asked by the Executive Compensation Committee to recommend the appropriate level of merger incentive to members of the executive management team under the Merger Incentive Plan. To do so, Hay Group reviewed 13 merger transactions for 13 health services or health insurance organizations since January 1, 1996, including the recent acquisition of Cerulean Companies, Inc. (the Georgia Blue Cross Blue Shield plan) by WellPoint. The median equity-based compensation for the chief executive officer of the acquired entity in these transactions is 0.88% of the merger consideration. The median equity-based compensation for the executive management team (including the chief executive officer) of the acquired entity in these transactions is 2.38% of the merger consideration. The equity-based compensation for the chief executive officer of Cerulean was 0.94% of the merger consideration. The equity-based compensation for the executive management team (including the chief executive officer) of Cerulean was 2.55% of the merger consideration.[5]

Under the Merger Incentive Plan, the CareFirst Board of Directors granted Mr. Jews a merger incentive equal to 0.70% of the merger consideration and granted an aggregate merger incentive to the executive management team (including Mr. Jews) equal to 1.90% of the merger consideration. The merger incentive payable to the CareFirst executive management team under the Merger Incentive Plan (expressed as a percentage of merger consideration) is 20% less than the median equity-based compensation for the executive management team of the acquired entity in the 13 comparable merger transactions we reviewed and 25% less than the equity-based compensation for the executive management team of Cerulean. We conclude that the level of merger incentive under the Merger Incentive Plan is both reasonable and appropriate when compared to executive compensation in comparable circumstances.[6]

Assuming a merger consideration of $1,300,000,000, each participant will receive the following merger incentive based on the percentage granted each participant under the terms of the Merger Incentive Plan:[7]

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5 "Equity-based compensation" is the appreciation in value of stock options and stock (often restricted) in the acquired company, as well as phantom stock and similar awards, held by an executive of the acquired company from a date prior to the commencement of merger negotiations to the date on which the merger is consummated.

6 Further to determine the appropriate merger incentive to be paid to Mr. Jews, CareFirst, through its attorneys, Piper Marbury Rudnick Wolfe, sought the opinion of Frederic W. Cook & Co., Inc., also a nationally-recognized executive compensation firm. Frederic W. Cook & Co., Inc. concluded that a merger incentive to Mr. Jews equal to 0.75% of the merger consideration is commercially reasonable and appropriate. A copy of the Frederic W. Cook & Co., Inc. memorandum, dated April 12, 2001, together with a brief description of the firm, is attached as Exhibit 3 to this testimony.

7 Under the terms of the employment agreements each of these executives has with CareFirst, the executives are also entitled to reimbursement for any federal excise tax imposed under Section 4999(a) of the Internal Revenue Code (together with reimbursement for any taxes attributable to the reimbursement for the federal excise tax) if the merger incentive is deemed an "excess parachute payment."

William L. Jews	$ 9,100,000	0.70000%
David D. Wolf	$ 3,600,000	0.27692%
John A. Picciotto	$ 2,800,000	0.21538%
Leon Kaplan	$ 2,300,000	0.17692%
Gregory A. Devou	$ 2,300,000	0.17692%
G. Mark Chaney	$ 2,300,000	0.17692%
Sharon J. Vecchioni	$ 2,300,000	0.17692%
	$24,700,000	1.90000%

Under the terms of the Merger Incentive Plan, as amended by the CareFirst Board of Directors in connection with the WellPoint transaction, the foregoing merger incentive will be paid in restricted shares of WellPoint common stock issued within five business days after closing and vesting in equal annual installments as of the first, second and third anniversaries of the closing date of the transaction if the participant remains employed by the company through the vesting dates. The restricted shares become fully vested if (i) the participant remains employed by WellPoint for three years after the closing date of the transaction or (ii) the participant's employment is terminated within this three-year period either by the company without "cause" or by the participant for "good reason." [8]

Mr. Jews will receive a cash payment if he terminates his employment other than for "good reason" on or after the closing date of the transaction, but before the third anniversary of the closing date of the transaction. The amount of the cash payment will depend on whether restricted shares of WellPoint common stock have been issued to Mr. Jews and to what extent they are vested. If Mr. Jews terminates his employment other than for "good reason" on or after the closing date of the transaction, but before the third anniversary of the closing date of the transaction, the value of the restricted shares of WellPoint common stock issued to Mr. Jews that

[8] "Good reason" includes, among other things, (i) a material reduction in the participant's responsibilities, duties, or authority; (ii) a transfer to a location that results in a commuting distance that is more than 50 miles greater than the commuting distance as of the effective date of the plan; or (iii) a failure to provide a compensation arrangement that is comparable to similarly situated employees.